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Q1 2020 - Market Commentary

- The rapid spread of the COVID 19 coronavirus caused global economic activity to grind to a halt in a matter of weeks. Global financial markets plunged as the situation is unprecedented in global history in terms of the magnitude and speed with which the virus spread and disrupted the world. In just three weeks, the U.S. labor market went from the lowest unemployment rates in U.S. history to massive layoffs and the biggest weekly rise in unemployment claims of over 3 million people.
- As fears turned into reality, financial markets became dysfunctional, requiring the Federal Reserve to step in as a lender of last resort in an attempt to provide liquidity and restore order to credit and Treasury bond markets. The Fed acted rapidly and aggressively, rolling out multiple credit support programs, some of which were used during the 2008 GFC. Interest rates were cut from 1.5% to 0% and the Fed expanded its balance sheet to over $5 trillion in an all-out Quantitative Easing blitz. A $3 trillion stimulus package was quickly enacted by Congress and signed by President Trump to provide additional relief to families and businesses.
- Stocks and corporate credit bore the brunt of investors rushing to the exits. Nothing was spared, there were no shelters from the storm besides cash or U.S. Treasury bonds. Stock market volatility soared, with the VIX index exploding above 80. During March, the U.S. stock market experienced 12 trading days of + /- 5% returns and on some days the markets moved more than 10% in total.
- U.S. stocks fell into bear market territory at the quickest pace in history, declining by over 25% in just 16 days, exceeding the plunge during 1929 at the start of the Great Depression when it took 27 days for the stock market to decline over 25%. Small caps stocks suffered the greatest losses.
- Bond yields collapsed during the quarter, reflecting the unprecedented halt in global economic activity and investors plowing into U.S. Treasuries in a flight to safety trade. The 10-year U.S. Treasury bond yield ended the quarter at 0.68%, down from 1.92% at 12/31/19.
- Credit markets froze as normal transaction activity quickly became dysfunctional. Credit spreads on commercial paper, high yield bonds, and investment grade corporate bonds blew out as there were no buyers for credit due to the rapid deterioration in market liquidity. Only the Fed stepping in helped to restore some order to bond markets.
- Oil prices plunged, as OPEC could not get Russia to agree to a production cut and so Saudi Arabia decided to go rogue, increasing production and cutting prices, which caused global crude prices to collapse. Oil went from $61 at the start of the year to $20 by quarter end.
- Gold was a beneficiary of the chaos brought on by the coronavirus, producing a positive return during the quarter as most financial assets plunged.
- Balanced portfolios suffered their worst quarterly returns since the fourth quarter of 2008. The following table shows returns of major asset classes for the first quarter and the last three years.

Performance Table [1]

	1Q20		2019		2018		2017	
S&P 500 Index (U.S. large cap stocks)	-19.6%	↓↓↓	31.5%	↑↑↑↑	-4.4%	↓	21.8%	↑↑↑
Russell 2000 Index (U.S. small cap stocks)	-30.6%	↓↓↓↓	25.5%	↑↑↑↑	-11.0%	↓↓↓	14.7%	↑↑↑
MSCI EAFE Index (large cap int'l stocks)	-22.8%	↓↓↓	22.0%	↑↑↑	-13.8%	↓↓↓	25.0%	↑↑↑↑
MSCI EM Index (emerging markets stocks)	-23.6%	↓↓↓	18.4%	↑↑↑	-14.6%	↓↓↓	37.3%	↑↑↑↑
Bloomberg Barclays Aggregate Bond (invt. grade bonds)	3.2%	↑	8.7%	↑↑	0.0%	↔	3.5%	↑
Bloomberg Barclays Corp. High Yield (below invt. grade bonds)	-12.7%	↓↓↓	14.3%	↑↑↑	-2.1%	↓	7.5%	↑↑
Bloomberg Barclays Short-term Treasury (cash)	0.8%	↑	2.5%	↑	1.9%	↑	0.8%	↑
Bloomberg Barclays Municipal Bond Index	-0.6%	↓	7.5%	↑↑	1.3%	↑	5.5%	↑↑
Gold	5.8%	↑↑	18.4%	↑↑↑	-2.9%	↓	12.5%	↑↑↑
Oil (West Texas Intermediate Crude)	-66.9%	↓↓↓↓↓	31.5%	↑↑↑↑	-25.0%	↓↓↓↓	12.5%	↑↑↑
Bitcoin	-9.6%	↓↓	90.3%	↑↑↑↑↑	-75%	↓↓↓↓↓	1318%	↑↑↑↑↑↑↑
Morningstar Balanced Funds Average (50% to 70% stocks)	-14.9%	↓↓↓	19.2%	↑↑↑	-5.8%	↓↓	13.4%	↑↑↑

[1] *Data sourced from Barclays, Market Watch, MSCI, Russell and Standard & Poors*